

CREATE AND MANAGE YOUR RESTAURANT'S BUDGET LIKE A PRO



ACTION ITEMS

- Regularly calculate and record budgets in an annual or fiscal period basis.
- Continuously compare current business performance to historical performance including trends and problem areas.
- Adjust budgets based on recent performance when necessary.

WHY BOTHER CREATING A RESTAURANT BUDGET?

No one gets into the restaurant business because they have a passion for spreadsheets and crunching numbers. But in an industry known for slim profit margins it's crucial that operators know precisely how much revenue it takes to cover operation expenses and turn a profit.

Creating a restaurant budget helps build a framework for success. Without one, you'll only have a vague idea of whether your restaurant is making or losing money in the long run. But many operators find it difficult to effectively create and use a budget due to constant fluctuations in sales, costs, and frankly—the weather.

When done correctly, creating a restaurant budget forces you to consider how those changing conditions will impact your revenue and costs so you can better predict whether you'll profit, break even, or operate at a loss. Understanding all the factors and how they relate will help you adapt to changes more quickly to maintain profitability.



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ACTION ITEMS

- Plan on monitoring your progress compared to budget on at least a weekly basis.
- Monitor week-to-date budget-to-actuals to stay on track.
- Take action as soon as you see you're veering off budget so you have time to course-correct before the next period.

ALIGNING FINANCES AND OPERATIONS

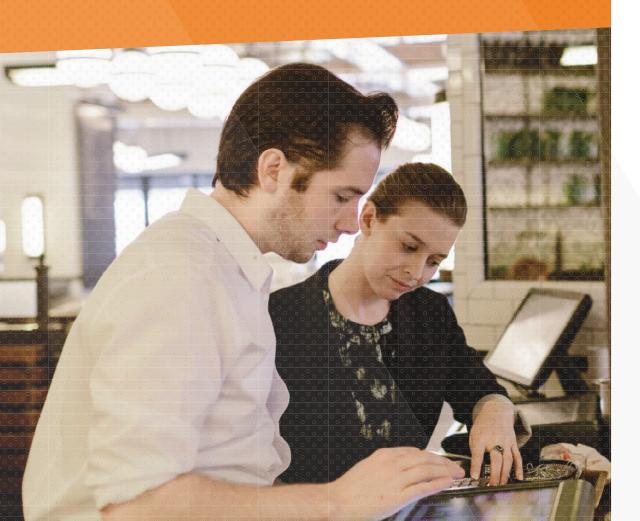
Take action as soon as you see you're veering off budget so you have time to course-correct before the next period. Sure, managers run operations and have influence over sales and costs. But in reality, everyone on staff has the potential to impact the budget, for better or worse. Setting a budget helps identify what the business should be focusing on and what role each department and employee plays in accomplishing that vision.

Your budget might look great on paper to the finance team, but it's up to your operations management staff to see it through in the real world. Ultimately, a budget is just the plan, and a plan is only as good as its execution.

One of the biggest mistakes restaurateurs make at this stage is setting a budget and then ignoring it until month-end book preparations. With such thin margins and the variable expenses involved in running a restaurant, it's essential to proactively manage your finances and get serious about staying on track.



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SETTING BENCHMARKS FOR YOUR BUDGET

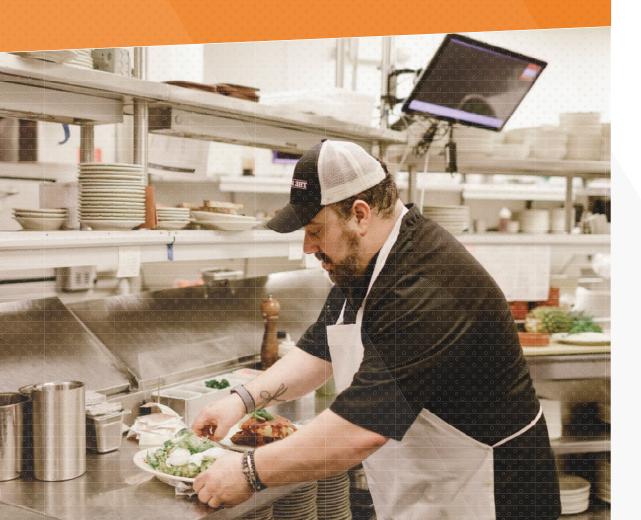
Think of your budget as a theoretical profit-and-loss (P&L) statement for your business and structure your budget the same way. This makes it easier to pinpoint the major financial drivers that you need to monitor: covers, sales, prime costs, prime profit, and net income. We'll discuss each of these factors and how they impact the budgeting process for restaurants in this section.

Covers - Not all restaurant budget templates include covers in their framework, but they should. Projected covers are a crucial metric for planning how to operate your business. When projecting sales, many restaurateurs find that they achieve more accuracy by basing their calculations on expected number of covers. Using covers as a basis for predicting revenue enables a restaurant to base projections on average check per cover rather than overall average check.

Sales – Top-line sales are the single biggest profit-determining factor on the P&L. When budgeting your sales numbers, it's a good practice to compare current sales with sales from the same period last year. It's also helpful to look at historical average check per cover and combine this with your budgeted cover counts for even greater accuracy.



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Prime cost - The total cost of goods (inventory), promotions, labor costs, and all related payroll expenses is your prime cost. It's crucial to keep a close eye on prime cost because it includes the most highly variable cost categories. The industry standard for full-service restaurants is that prime cost should never exceed 65% of total gross sales. Achieving a prime cost of 60-65% of sales will generally set you up to earn a healthy profit margin.

Prime Profit - Sometimes referred to as "controllable income" or "operating income," prime profit reflects gross sales minus promotions, cost of goods, operating expenses, and labor costs. It represents the total income over which your staff has any real influence. A prime profit of 35-40% is a good indicator of efficiency.

Net income - The money left over after subtracting all cost categories from your revenue is your net income. It's a good idea to compare net income across two or more prior periods to see if you're trending in the right direction over time. Another important value is profit margin, which is net income expressed as a percentage of total sales. Restaurant profit margins can range from 0-15%, with most common average margins ranging from 3-5% of sales.

Now that we've outlined these important budget metrics, let's take a look at putting these numbers into practice.



CREATING A CUSTONIZED, ACTIONABLE BUDGET

ACTION ITEMS

Get specific:

- Set individual goals for particular periods, revenue centers, food and beverage categories, and meal periods.
- Leverage historical data on past labor costs, inventory costs, and sales—down to the category and item.

CRUNCHING THE NUMBERS

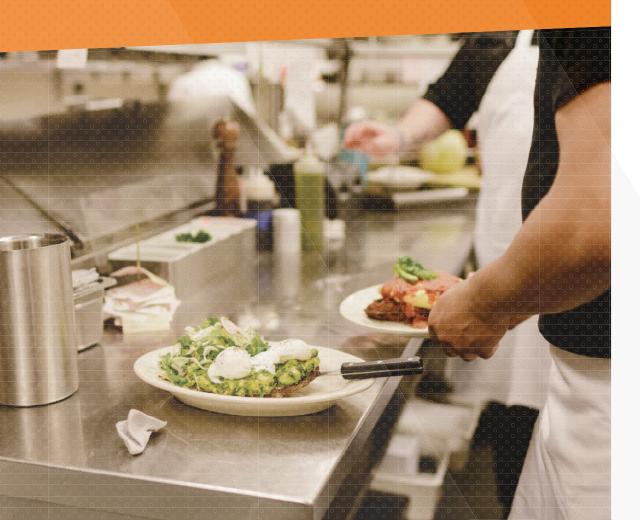
Your restaurant budget is both a goal and a roadmap for maximizing profit. You want to strive for better performance than last year without setting up unrealistic expectations for the coming year. A great way to make sure your goals are achievable is to pay attention to your historical performance. Whether you have several years in operation to draw from, or only months, you past performance should be your biggest benchmark for your future performance. Pay special attention to areas that either fell short or exceeded expectations and incorporate those learnings into your new budget.

When creating your budget, you can never be too curious or thorough. Make sure to ask your department heads as many questions as possible so you're more likely to uncover opportunities and eliminate oversights.

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STAYING ON TRACK THROUGHOUT THE YEAR

Sticking to the budget is especially challenging in the restaurant industry, but with the right tools and your whole team onboard, it's a goal that's 100% achievable.

One of the easiest ways to help your restaurant stay on track is to communicate the budget to everyone in the organization. If your budget for the year shows 4% year-over-year sales growth, then this tells your employees that the number one goal should be driving revenue. If the budget is heavily centered around cutting food costs, then this communicates that the company is going to be scrutinizing purchases and reducing waste as much as possible.

Periodically review the budget with your entire team so that everyone is on the same page. It's crucial to hold each employee accountable for the outcomes to which they contribute. Working together as a team and rewarding your staff for their contributions to this shared goal is the best way to stay on track.

The most effective way to stay the course regarding your budget is to track week-to-date P&L performance in real time and drill down to specific sources of profit and loss for your business.

Where can you look to find that level of detail? Avero's Finance module.





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AVERO'S FINANCE MODULE

We took the principles outlined in this ebook and incorporated them into the Avero Finance module to empower restaurateurs to effectively streamline their financial planning and analysis. Operators all over the world use Avero Finance to accurately create detailed budgets in seconds based on historical data, track daily P&L performance in real time, and drill down to specific sources of profit and loss.

Our simple cost entry format helps you stay on top of your expenses and continuously track them against the budget. If you're a multi-unit operator, our Group P&L and Group Budget-to-Actual reports enable you to manage all your locations' finances from end-to-end and keep the team on board from one convenient platform. The Avero Finance module helps create a culture of financial awareness across your business, while minimizing your costs, saving time, and protecting and growing your profit margins.

The customizable nature of the module makes it perfect for both small restaurants that have never operated on a functional budget, and larger, well-established restaurants with dedicated finance professionals. Avero bridges the gap between the business office and the restaurant floor so everyone has the insights they need to ensure success.

For more information about how Avero Finance can help perfect your budget planning and execution processes, contact us today at 646.421.6282.





ABOUT AVERO

Created by restaurant operators for restaurant operators, Avero is the trusted technology partner for the hospitality industry. We empower 50,000 restaurant professionals with the answers they need to transform their businesses and their lives, getting them out of the back office and in the kitchen with their staff, on the floor with their guests, and home with their families.

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